



Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

2016/17 Annual Audit Report to the Board of
Management and the Auditor General for
Scotland

December 2017

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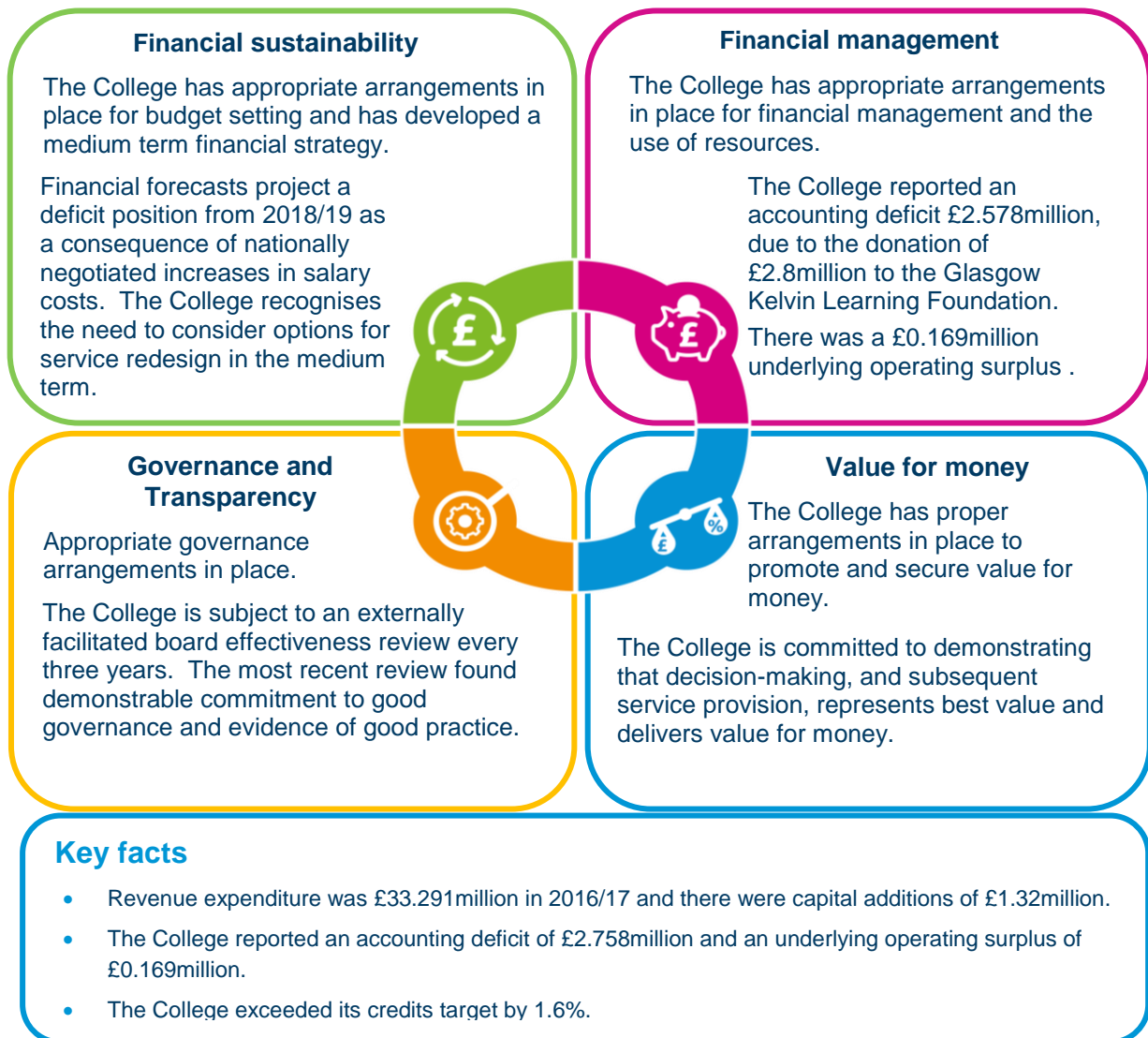
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Key Messages

Annual report and financial statements

The annual report and financial statements for the year ended 31 July 2017 were approved by the College on 12 December 2017. We reported within our independent auditor's report an unqualified opinion on the financial statements, the regularity of expenditure and income and other prescribed matters. We are satisfied that there are no matters which we are required to report by exception and we have nothing to report in respect the use of the going concern basis of accounting in the preparation of the financial statements.

Wider scope



Conclusion

This report concludes our audit of the College for the year to 31 July 2017. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
December 2017



Introduction

Introduction

1. This report summarises the findings from our 2016/17 audit of Glasgow Kelvin College ("the College").
2. We outlined the scope of our audit in the external audit plan that we presented to the Audit and Risk Committee in June 2017. The main elements of our work in 2016/17 have been:
 - an audit of the annual report and financial statements, including a review of the College's key financial systems;
 - a review of the arrangements as they relate to the four dimensions of wider scope public audit: financial management, financial sustainability, governance and transparency and value for money;
 - consideration of the College's arrangements for taking part in the National Fraud Initiative data-matching exercise;
 - consideration of the local impact of Audit Scotland's national performance report [The Role of Boards](#); and
 - completion of a minimum dataset of information and an analysis of EU funding that has been agreed with the College and submitted to Audit Scotland.
3. The College is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We discussed and agreed the content of this report with the Principal and the Vice Principal Finance and Corporate Services. We would like to thank all management and staff for their co-operation and assistance during our audit.

Management action plan

Follow up of prior year recommendations

5. As part of our audit, we have followed up on the recommendations raised in our previous audit reports. Our 2015/16 report contained two recommendations that we consider are now complete.

Independence

6. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement, the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the College that may reasonably be thought to bear on our objectivity and independence.
7. The expected audit fee set by Audit Scotland and reported in our external audit plan was £43,380. During the year, Audit Scotland confirmed a reduction in the audit fee to £39,380.

Adding value through the audit

8. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision-making and more effective use of resources.
9. This report is addressed to both the Board of Management and the Auditor General for Scotland and will be published on Audit Scotland's website.
www.audit-scotland.gov.uk.
10. We welcome any comments you may have on the quality of our work and this report via:
www.surveymonkey.co.uk/r/S2SPZBX.

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Annual report and financial statements

Annual report and financial statements

An unqualified audit opinion on the financial statements

The Board approved the annual report and financial statements for the year ended 31 July 2017 on 12 December 2017. We reported within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on the regularity of expenditure and income; and
- an unqualified opinion on other prescribed matters.

Introduction

11. The College's annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. An outline of the respective responsibilities of the College and the auditor in relation to the financial statements is in Appendix 1.
12. In this section, we summarise the issues arising from our audit of the 2016/17 annual report and financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements

13. The College approved the annual report and financial statements at their Board meeting on 12 December 2017. We reported an unqualified opinion on:
- the financial statements;
 - the regularity of expenditure and income; and
 - other prescribed matters.

14. We are satisfied there are no matters on which we are required to report by exception and we have nothing to report in respect the use of the going concern basis of accounting in the preparation of the financial statements.

Good administrative processes were in place

15. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to all College staff for their assistance throughout our audit.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole; we do not express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described below.

Assessed risks of material misstatement and our audit response

1. Management Override

Excerpt from the 2016/17 External Audit Plan: *In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with International Standard on Auditing 240 (ISA 240) - The auditor's responsibilities relating to fraud in an audit of financial statements.*

Assessed risks of material misstatement and our audit response



17. We reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. To inform our conclusion we performed a detailed review of the journals raised and posted throughout the year and at the year-end to identify any unusual transactions or activity. We also reviewed the controls in place over the journal process for any potential weaknesses that could give rise to management override.

2. Revenue recognition

Excerpt from the 2016/17 External Audit Plan: *Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. Practice Note 10 (revised) highlights that in the public sector most entities are net spending bodies and there is a risk of fraud over expenditure. The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.*



18. At the outset of our audit, we considered the nature of the revenue streams at the College against the risk factors set out in ISA 240. We considered it appropriate to rebut the risk of revenue recognition over Scottish Funding Council (SFC) grant funding due to a lack of incentive and opportunity to manipulate revenue of this nature. However, we considered the risk of fraud in relation to revenue recognition remained present in all other income streams.
19. In response, we evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure the College has applied this policy appropriately. We performed detailed testing of each material income stream. We did not identify any evidence of fraud in relation to revenue recognition.

3. Estates developments

Excerpt from the 2016/17 External Audit Plan: *The sale of the City Campus to Glasgow School of Art reached formal completion before the 2015/16 year end. While the disposal was recognised in 2015/16, the College did not receive the £6million sale proceeds until 1 August 2016 and so a £6million debtor was recognised in the 2015/16 financial statements. We reviewed the College's 2015/16 accounting treatment against the requirements of FRS102 and the SORP and found that the College accounted for this disposal appropriately. Based on SFC confirmations the College accounted for sale proceeds of £3million on the transaction in 2015/16 with a further £3million accounted for as a liability due to be repaid to the SFC.*

We understand that further consultation during 2016/17 has enabled the College to retain a further £1million of the sales proceeds to support its ambitions to raise attainment, provide STEM skills for sustainable employment and develop community capacity. We also understand that the remaining £2million has been paid, in line with relevant approvals, directly to Forth Valley College¹.

From our planning to date we have not identified any specific concerns with the treatment adopted by the College. However, due to the material value, and the importance of compliance with the Financial Memorandum, we consider it appropriate to treat this as a significant risk to our audit in 2016/17.



20. We reviewed the accounting treatment adopted in relation to the sale of the City campus and found it to be consistent with the SORP and in line with correspondence received from the SFC and the Minister for Further Education, Higher Education and Science.

¹ As instructed by the Minister for Further Education, Higher Education and Science on 24 March 2017

Assessed risks of material misstatement and our audit response

21. The College received £6million sale proceeds from the disposal on 1 August 2016. In 2015/16, based on SFC confirmations, the College accounted for sale proceeds of £3million and a liability of £3million due to be repaid to the SFC.
22. Consultation between the College, the SFC and the Scottish Government during 2016/17 resulted in correspondence from the Minister for Further Education, Higher Education and Science confirming the treatment of the £3million liability recognised in 2015/16:
- The Minister confirmed a £1million allocation to support the College's "*laudable ambitions to raise attainment provide STEM skills for sustainable employment and develop community capacity*".
 - The Minister instructed the College to pay £2million to Forth Valley College.
23. As instructed, the College paid £2million to Forth Valley College on 24 March 2017. The draft financial statements presented the remaining £1million as a gain on disposal in 2016/17. However, following discussions through the audit process the College amended this treatment to present the £1million as an income allocation, in line with the Minister's correspondence. There was no impact on the reported deficit for the year as a result of this adjustment.

Audit differences

24. We identified a number of immaterial disclosure and presentational adjustments during our audit that are reflected in the final set of financial statements. In addition, the following adjustments were made:
- the £1million allocation reported in paragraph 23 was initially treated as a gain on disposal in 2016/17;
 - additional disclosures were made in relation to related party transactions;
 - amendments were made to the narrative disclosure of financial instruments; and
 - various minor amendments were made to the remuneration report to ensure full compliance with Government Financial Reporting Manual requirements.

Written representations

25. As is standard practice, we requested the College present a signed representation letter, covering a number of issues, to us at the date of signing the annual report and accounts.

Regularity

26. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.

27. We did not identify any instances of irregular activity. Our procedures included:

- reviewing minutes of relevant meetings;
- enquiring of senior management and the College's solicitors the position in relation to litigation, claims and assessments; and
- performing detailed testing of transactions and balances.

Going concern and subsequent events

28. Auditing standards require us to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.
29. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. ISA 560 - Subsequent events requires us to assess all such matters before signing our audit report.
30. In order to gain assurance on these matters our work has included:
- reviewing bank facilities;
 - reviewing budget and cash projections;

- reviewing minutes of post balance sheet board meetings;
- enquiries of senior management and the College's solicitors;
- consideration of future SFC funding; and
- performing sample testing of post balance sheet transactions.

31. The Board of Management considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate. We did not identify any subsequent events which require amendments or disclosures to be made in the financial statements.

Performance report

32. We have considered the information given in the performance report that forms part of the College's annual report and financial statements. We found that the information given in the performance report is consistent with the financial statements and that report had been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC.

Governance statement

33. The College's governance statement explains that the College was compliant with the principles of the 2016 Code of Good Governance for Scotland's Colleges. We are satisfied that the information given in the governance statement is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC.

Remuneration report

34. In our opinion, the audited part of the remuneration and staff report has been properly prepared.

Qualitative aspects of accounting practices and financial reporting

35. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and accounts. Our observations are:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies and we consider these to be appropriate to the College
The timing of the transactions and the period in which they are recorded.	We did not identify any material concerns over the timing or the period in which they were recognised.
The appropriateness of accounting estimates and judgements used.	The accounting estimates and judgements used in the preparation of the financial statements are reasonable. Significant estimates and judgements are required over fixed asset valuations, depreciation rates, pension liabilities and the valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation.	We have not identified any uncertainties including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have	From the testing performed, we identified no unusual

Qualitative aspect considered	Audit conclusion
been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	transactions in the period which were not adequately disclosed in the financial statement.
Apparent misstatements in the performance report or inconsistencies with the financial statements.	No material misstatements or inconsistencies with the financial statements were identified.
Any significant financial statement disclosures to bring to your attention.	We did not identify any significant financial statement disclosures to bring to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered.

An overview of the scope of our audit

- 36.** We detailed the scope of our audit in our external audit plan. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk.
- 37.** Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
- 38.** At the planning stage, we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We did not identify any significant risks in relation to the wider scope audit dimensions in 2016/17 and we did not identify any additional significant risks, over and above those reported in our external audit plan, during our work.
- 39.** Our standard audit approach is to perform a review of the key financial systems in place, substantive tests and detailed analytical review. We tailored audit procedures, including those designed to address significant risks, for the audit fieldwork team to complete and the results reviewed by the audit manager and audit partner. We have applied the concept of materiality throughout the audit.

Our application of materiality

- 40.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report.
- 41.** The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our assessment of materiality for the financial statements at the planning stage was £600,000, approximately 1.9% of 2015/16 expenditure. We subsequently revised our materiality assessment to £550,000, approximately 1.9% of actual 2016/17 expenditure.
- 42.** We set a level of performance materiality for each area of work based on our risk assessment. We performed audit procedures on all transactions, or groups of transactions, and balances that exceed performance materiality as disclosed below.

Area risk assessment	Weighting	Performance materiality
High	40%	£220,000
Medium	55%	£302,500
Low	70%	£385,000

43. Our reassessment of overall materiality also led to small reductions in the related performance materiality assessments.
44. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements.
 - Uncorrected misstatements over £25,000.
 - Misstatements below £25,000 that we believe warrant reporting on qualitative grounds.
-



Financial management

Financial management



The College has appropriate arrangements in place for financial management and the use of resources.

The College reported an accounting deficit of £2.578million for the year and an underlying operating surplus of £0.169million.

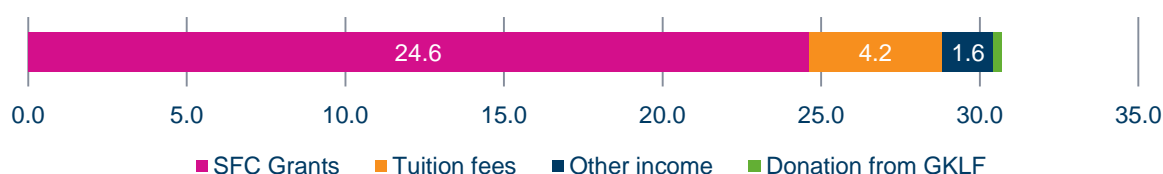
45. Financial management is concerned with the College's budgetary processes and control environment, to ensure these arrangements support the college in the efficient allocation and safeguarding of resources. The College is responsible for ensuring it conducts its financial affairs in a proper manner.

Financial performance

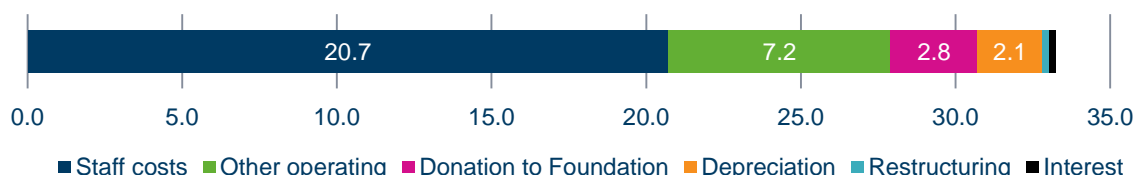
The College reported a deficit of £2.578million

46. The College reported an accounting deficit £2.578million, principally due to the donation of £2.8million to the Glasgow Kelvin Learning Foundation (GKLF). Major income and expenditure streams for the year were:

Income of £30.712million during 2016/17



£33.291million expenditure in 2016/17



47. In 2016/17, the College's income reduced by £0.771million (2.5%), to £30.712million. This was principally due to a reduction in recurring SFC grant income of £1.579million following the final stage of the agreed transfer of curriculum between Glasgow's colleges in 2015/16. The reduction in SFC recurring grant funding was somewhat offset by the £1million non-recurring allocation commented upon in paragraph 23.
48. Expenditure rose to £33.291million in 2016/17, an increase of £1.317million (4.1%) on the prior year. The main reason for the increase was a non-recurring donation to the GKLF of £2.8million (discussed further below).

49. The non-recurring expenditure incurred was partially offset by reductions in other costs due to the decreased activity following the final stage of the agreed transfer of curriculum between Glasgow's colleges. There were reductions in staff costs (£0.846million), restructuring costs (£0.391million) and other operating expenses (£0.064million).

Glasgow Kelvin Learning Foundation

50. In March 2014, the College donated cash backed reserves of £3.2million to the GKLF. This approach was consistent with that adopted across the sector following the Office for National Statistics (ONS) reclassification of Scottish colleges as central government bodies.

51. GKLF is registered with the Scottish Charity Regulator with the charitable purpose of the advancement of education in Glasgow.
52. The College applies to the GKLF to support its capital plans and all funding received from the GKLF is recognised as revenue income once performance-related conditions are met. The table below shows donations to the GKLF and awards from the GKLF since 2014:

GKLF transactions £m	2013 / 14 *	2014 / 15 **	2015 / 16	2016 / 17
Donation to GKLF	3.2	-	-	2.8
Donation from GKLF	-	-	0.5	0.277

* 8 month period ** 16 month period

53. The £2.8million donation to GKLF in 2016/17 was due to the treatment of the capital receipt received for the sale the City campus. In total, £6million was received on the sale on 1 August 2016. Of that total, £2million was paid to Forth Valley College as instructed by the Minister for Further Education, Higher Education and Science, £2.8million was donated to the GKLF with a view to supporting future capital projects at the College, and £1.2million was invested during 2015/16 and 2016/17 in the College's estate.

Capital additions

54. There were capital additions of £1.32million in 2016/17 funded through a mix of SFC and GKLF funding. Additions in the year were split evenly between equipment and improvements to buildings.

Underlying financial performance

An operating deficit reported

55. Following ONS reclassification, Scottish colleges have received additional non-cash budget to meet depreciation charges. However, under SORP accounting the College does not recognise this additional budget.
56. The College has reported an accounting deficit in the year of £2.578million. After taking in to account the non-cash budget the College has disclosed an operating deficit of £2.043million for the year.

An underlying operating surplus reported

57. In addition to the use of non-cash budgets, the SFC advises that a further range of adjustments are required to the accounting surplus to present the underlying operating position for the year, as presented in the table below:

Underlying operating position as per SFC guidance	2016/17 £m
Accounting deficit	(2.579)
Depreciation	0.536
Non-cash pension adjustments	0.845
Donation to GKLF	2.8
Revenue funding allocated to repayment of Lennartz VAT liability	(0.433)
Non-recurring allocation	(1)
Underlying operating surplus	0.169

Budget monitoring and control

58. We found the College's budgetary control and financial management to be appropriate. The College approves budgets on a timely basis in advance of the financial year. The College monitors and reports performance against budget regularly through the year. Finance investigates material variances against budget in liaison with the relevant budget holders.
59. The College's Financial Control Committee reviews the most recent management accounts and cash flow forecasts at each meeting. The management accounts compare performance to date against budget and include a variance analysis of the performance to date, and considers any risks not already documented in the financial management and audit section of the College's risk register.

Performance against resource allocations

60. In addition to reporting financial statements to 31 July each year, the College is also required to comply with government accounting and budgeting rules to 31 March each year. To that end, the College reports its performance against the revenue resource budget and the capital resource budget for the year to 31 March within the performance report.

Performance against resource allocation to 31 March 2017	Revenue £m	Capital* £m
Resource budget	32.497	(4.2)
Expenditure	25.596	(0.531)
Outturn	6.901	(3.669)

* Negative budget here reflects the impact of capital receipts

61. The table above shows that there was an underspend against the resource budget of £6.901million principally due to the impact of the sale of the City Campus:
- The budget included a £4.8million donation to the GKLF. In practice, £2.8million was donated to the GKLF. The remaining £2million was paid to Forth Valley College as instructed by the Minister for Further Education, Higher Education and Science.
 - Budgets reflected the profit on disposal of the City Campus being scored against the capital budget. However, the agreed final resource return scored £4.069million profit on disposal against the revenue budget.
 - The College made further savings of £0.832million against operating costs and strategic expenditure.
62. There was an overspend of £3.669million against the capital allocation. This was due to:
- A £2.531million impact from the treatment of the profit on disposal of the City Campus.
 - £1.138million additional capital expenditure in the year.

Internal Audit

63. Henderson Loggie provides the College's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit.

64. While we have not placed formal reliance on the work of internal audit in 2016/17 for our financial statements audit, we have taken account of internal audit's work in respect of our wider scope responsibilities. We are grateful to the internal audit team for their assistance during the course of our work.

Fraud and irregularity

65. We have reviewed the College's arrangements for the prevention and detection of fraud and irregularities. Overall, we found the arrangements to be sufficient and appropriate.

National fraud initiative

66. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.
67. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
68. The NFI exercise identified 195 matches for potential investigation by the College, of which 12 were recommended for investigation. By the completion of our audit the College had investigated 122 matches and had plans in place to investigate the remaining matches. From the work to date one duplicate creditor payment was identified with a value of £6,248.
69. We consider that, given the relative number of recommended matches and this being the College's first year participating in the NFI, the College's level of participation has been mostly adequate, with some areas for improvement. We will liaise with management over the minor potential improvements that could be made to the College's NFI approach.
70. We are due to complete one further assessment of the College's participation in the NFI by 28 February 2018. That assessment will inform Audit Scotland's national NFI report to be published in June 2018.



Financial sustainability

Financial sustainability



The College has appropriate arrangements in place for budget setting and has developed a medium term financial strategy.

The medium term financial forecast projects a deficit position from 2018/19 onwards. The College recognises the importance of achieving efficiency savings in 2017/18, along with the need to consider options for service redesign to ensure a balanced budget over the medium term.

71. Financial sustainability looks forward to the medium and longer term to consider whether the College's planning processes support the future delivery of services.

Financial Planning

A balanced underlying operating position forecast for 2017/18

72. The College's 2017/18 revenue budget, as reported to the Board of Management in August 2017, forecasts a balanced underlying operating position.

Assumptions for the 2017/18 budget appear reasonable

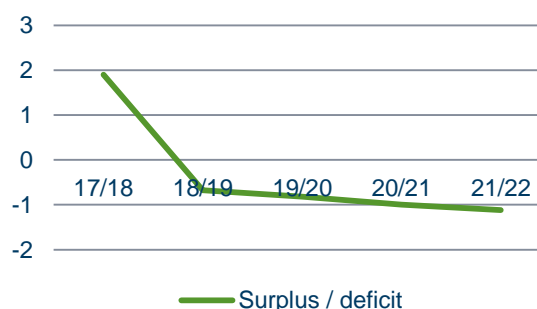
73. The College based the budget for 2017/18 on the most reliable information available at the time of preparation. Key assumptions have included:
- SFC core funding of £19.339million.
 - Increase in staff costs of £1.167million.
 - No donations are expected to the GKLF.
 - £2.01million income from GKLF, based on capital plans and correspondence to date.
 - £0.7million to compensate for reduced teaching contact hours.

Medium term financial plans forecast deficits

74. The College produces a Financial Forecast Return (FFR) for the SFC each year. As requested by the SFC, the 2017/18 FFR forecasts income and expenditure for the five-year period to 2021/22, supported by a sensitivity analysis. These projections incorporate planned capital expenditure and expected funding from the GKLF.

75. Prior to the issuing of FFR guidance, the College had approved a 5-year financial strategy in March 2017. Following SFC guidance the College revised their financial strategy in line with SFC assumptions where appropriate. The chart below shows that the College's FFR forecasts a deficit of £1.174million by 2021/22.

Projected outturn positions to 2021/22 (£m)



76. As required, the FFR was prepared using significant assumptions advised by the SFC:
- Core funding on flat cash settlements until 2020/21, thereafter 2% increases.
 - Student activity will remain at 2016/17 levels.
 - Increase of 1% per annum in support and teaching staff costs.
 - Increase of 1.5% per annum in non-staff costs.
 - The SFC would fund national bargaining costs, which would fall to 67% in 2020/21 and 33% in 2021/22.
 - No changes in student support funding.
 - Commercial and non-SFC funding to reduce for known changes

The College did not apply the suggested 1.5% inflation to non-SFC income due to past trends, limited scope for increases in charges and as there has been no confirmation of full time fees increasing by that amount.

Scenario planning and risk analysis

- 77. As part of the planning process, the College challenged the assumptions set out by the SFC and highlighted other risks and uncertainties that it considers likely to affect the projections.
- 78. The College's original five-year financial strategy set out four scenarios outlining the potential impact from future pay awards, staffing levels and student activity. The worst-case scenario, with no changes in income or costs other than a 1% pay award for all staff and reducing staff levels by two FTE a year, forecast increases the deficit over the five years to £6million. The College recognises that staff costs present a significant financial challenge over the medium term.
- 79. The Vice principal Finance and Corporate Services presented the FFR to the Board in August 2017. At that time, he highlighted the importance of adopting a systematic approach to achieving efficiency savings in 2017/18, along with the need to consider options for service redesign to ensure the College achieves a balanced budget over the medium term.

Estates strategy

- 80. The College has a ten-year estates strategy last revised in May 2015, which aims to ensure high quality facilities support the delivery of the College's services.

- 81. The College considers its buildings to be in good condition. However, it also recognises that maintenance is required to keep buildings at a high standard.

- 82. The SFC is currently carrying out a condition survey of all of Scotland's colleges, to prioritise the allocation of funding between regions. The College must now submit applications for capital funding to the GCRB to fund capital priorities. The College plans to supplement government grant funding through applications to the GKLF.

Workforce planning

- 83. In October 2017, the Vice Principal - Human Resources and Organisational Development presented a five-year workforce plan to the Board. The Human Resources Committee had endorsed this document in September 2017 following consultation with SMT, staff, managers and trade union representatives.
- 84. The Workforce plan sets out five key themes to create a high quality-teaching environment. The College has considered arrangements under each theme, informed by a workforce profiling exercise.
- 85. The College has identified the changes and progress to be made over the next five years, identifying actions required to achieve their future workforce vision against each theme. The Human Resources Committee will monitor progress against these actions and carry out an annual review for the Board.



Governance and transparency

Governance and transparency



The College has appropriate overarching governance arrangements.

The College is subject to an externally facilitated board effectiveness review every three years. The most recent review found demonstrable commitment to good governance.

86. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. The College is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements

Governance arrangements

Governance structure

87. Five core standing committees support the Board of Management: the Academic Board, the Audit and Risk Committee, the Financial Control Committee, the Learning and Teaching Committee, and Human Resources Committee. A Remuneration Committee and a Nominations Committee also meet as required.

The governance statement

88. The College's governance statement reports full compliance with the Code of Good Governance for Scotland's Colleges during 2016/17.
89. We are satisfied that the information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC.
90. The College reported no significant issues within the governance statement and the reported position is consistent with the internal audit opinion that the College has adequate and effective arrangements for risk management, control and governance.

Role of boards and the external review of effectiveness

91. In September 2010, the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made the following eight recommendations:
92. As part of our work in 2016/17, we followed up on the issues highlighted by Audit Scotland. We have shared our findings with Audit Scotland and summarised below.

All non-executives should receive a formal induction

Boards should review the skills and expertise required on the Board and attract people to plug the gaps

Performance of non-executives should be assessed on a regular basis

Scrutiny efforts should be focused on organisational performance, financial and risk management

Performance information provided to the board could be improved

Boards should aim to maximise openness and accessibility of papers

Declarations of interests should be considered at every meeting

Boards should review the use of committees and ensure delegation levels are appropriate

Appropriate arrangements for scrutiny and decision-making

93. In our opinion, the overarching arrangements for scrutiny and decision-making at the College are appropriate.

94. The Board conducts a self- evaluation exercise annually, facilitated by the independent Clerk to the Board of Management. Evaluations are also conducted by each standing committee and on each of the Board and Committee chairs. The outputs from these assessments inform the governance action plan.
95. The College is subject to an externally facilitated board effectiveness review every three years. The most recent external review, carried out by the College's internal auditors in 2016/17, found demonstrable commitment to good governance.
96. The external effectiveness review did not find any areas of material non-compliance with the Code of Good Governance for Scotland's Colleges. Nine actions to further improve the College's governance arrangements were identified from the review, four of which were added to the governance action plan. The remaining five recommendations enhanced existing actions.
97. Through our attendance at the Audit and Risk Committee and our review of Board and committee minutes, we are satisfied that there is appropriate scrutiny and challenge from members. Published minutes demonstrate that policy decisions, service performance and programme management have been subject to scrutiny and formal approval.
98. Each committee is required to submit its minutes and annual assessment to the Board. This allows the Board to assess the effectiveness of the committee during the year.

Board and committee papers are publically available

99. The College publishes Board and committee minutes and papers online when approved. In line with legislation, some papers are not held in the public domain. Where that is the case, the justification is provided.

Appropriate induction and training takes place for Board members

100. An induction process for new members is in place that covers their respective role and responsibility as a member of the board of Management. Continuous professional development is also in place for existing members. Members are regularly encouraged to attend College Development Network events and take part in other relevant training and development opportunities.

Appropriate arrangements in place to handle complaints

101. The College have a complaints handling policy in place that is in line with model guidance published by the Scottish Public Services Ombudsman.

Systems of internal control

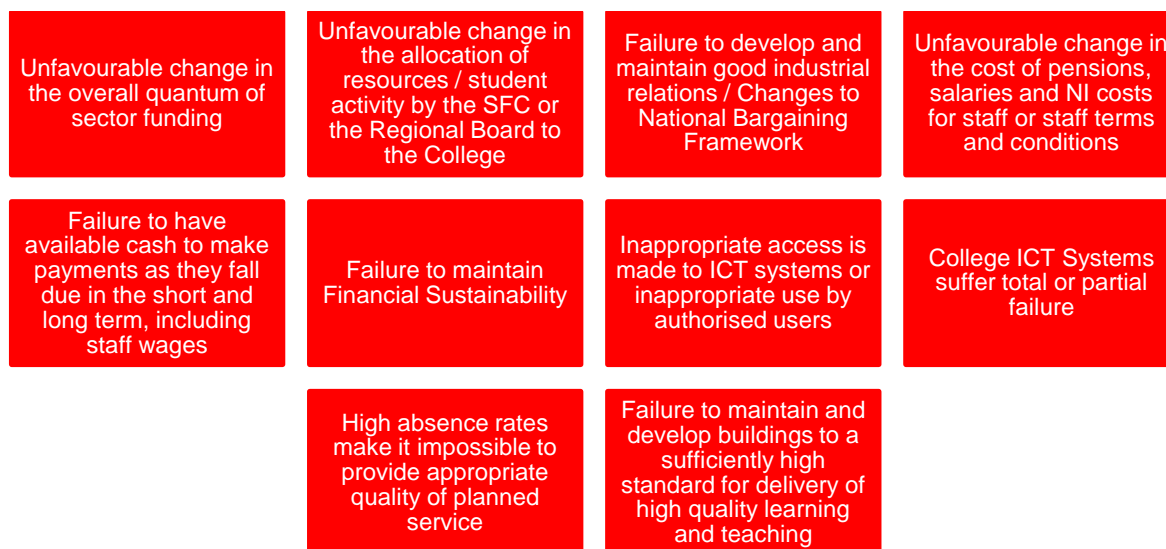
102. The College has appropriate systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses or governance issues in the accounting and internal control systems during our audit.

Standards of conduct

103. In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct

Risk management

104. The College has adequate arrangements in place for risk management. The Board holds ultimate responsibility for the management of risk and conducts a review of the College's risk register and appetite bi-annually.
105. The Audit and Risk Committee meets four times per year and reviews the risk register at each meeting. At an operational level, the College operates a risk management committee comprising operational and strategic managers.
106. In June 2017, the Board approved the risk appetite statement, which sets out risk appetite for each category of risk. The College considers that to remain an innovative educational institution it is importance to be open to development and ICT risk relating to learning experience. The College is however risk averse in all matters involving the stewardship of College funds, compliance with legislation and the reputation of the institution.
107. As at September 2017, the College's risk register included ten risks graded at an unacceptable level. A risk owner and relevant controls and actions to mitigate risks are detailed for each risk. The unacceptable risks were:



6

Value for money

Value for money



The College has proper arrangements in place to promote and secure value for money.

The College is committed to demonstrating that decision-making, and subsequent service provision, represents best value and delivers value for money.

108. Value for money is concerned with using resources effectively and continually improving services. In this section, we report on our audit work as it relates to the College's reported performance.

Value for money framework

109. The Financial Memorandum between the College and the SFC, states the College must:
- have a strategy for reviewing arrangements for securing value for money; and
 - obtain a comprehensive appraisal of arrangements for achieving value for money as part of its internal audit.
110. The College is committed to demonstrating that decision-making, and subsequent service provision, represents best value and delivers value for money. To that end, the Board approved the most recent value for money strategy in August 2016.
111. Progress against the strategy is monitored by the Financial Control committee across ten thematic objectives, including:
- procurement;
 - non-staff costs;
 - income generation;
 - estates; and
 - programme design, learner retention and attainment.

Internal audit opinion on value for money

112. Henderson Loggie concluded in the internal audit annual report that the College has proper arrangements in place to promote and secure value for money.

Strategic Planning

113. The College has a three-year strategic plan 2017-2020, which sets out the College's five strategic objectives:



114. Targets and measures are allocated against each objective. The Board considers targets on an annual basis to ensure these are appropriate and performance is considered through a mid-year and annual overview progress report.

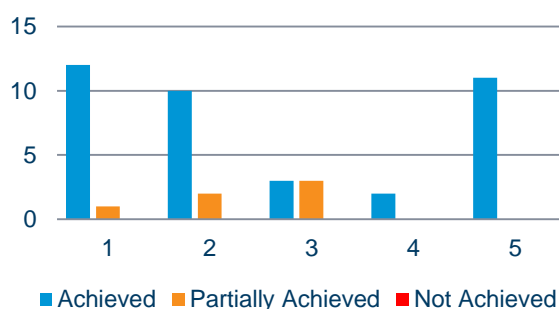
Performance

College achieved credits target for the year

115. The College delivered 82,871 Credits in the year to July 2017, 1,328 credits (1.6%) over its target. The SFC has reduced targeted activity for 2017/18 to 78,302.

Performance against strategic objectives

116. Progress against the targets attributed to the strategic objectives are summarised in the chart below:





Appendices

Appendix: Respective responsibilities

Management responsibilities

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements, the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and guided by the auditing profession's ethical guidance.

Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2017 and of its surplus or deficit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Conclusions relating to going concern

We are required to report to you if we consider:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Opinion on regularity

We confirm whether, in our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

We express an opinion on whether:

- the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council;
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council

Matters on which we are required to report by exception

We are also required to report if, in our opinion:

- adequate accounting records have not been kept; or
 - the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
 - we have not received all the information and explanations we require for our audit.
-

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.



Scott-Moncrieff
business advisers and accountants

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